

Exhibit No.: _____
Issue(s): Management Audit/General Ledger/
Record Keeping/Plant-In-Service/Personal
Usage of Company Vehicle Reimbursement
Witness/Type of Exhibit: Schaben/Surrebuttal
Sponsoring Party: Public Counsel
Case No.: WR-2023-0344

SURREBUTTAL TESTIMONY

OF

ANGELA SCHABEN

Submitted on Behalf of the Office of the Public Counsel

RAYTOWN WATER COMPANY

CASE NO. WR-2023-0344

November 8, 2023

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RAYTOWN WATER COMPANY

CASE NO. WR-2023-0344

INTRODUCTION

Q. Please state your name, title, and business address.

A. Angela Schaben, Utility Regulatory Auditor, Office of the Public Counsel (“OPC” or “Public Counsel”), P.O. Box 2230, Jefferson City, Missouri 65102.

Q. Are you the same Angela Schaben who filed direct and rebuttal testimony for the OPC in this case?

A. Yes.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my testimony is to respond to Raytown Water Company (“RWC” or the “Company”) witness Neal Clevenger as well as Staff witnesses Courtney Horton, David Spratt, and Angela Niemeier.

Q. Please summarize your recommendations.

A. I recommend the Commission order RWC to follow the implementation plan recommendations from Staff’s Management Audit, especially in the areas of competitive procurement processes, personal use of company vehicle reimbursement, and maintaining an automated general ledger. I also recommend a disallowance related to Mr. Clevenger’s company vehicle, and that he reimburse the company for personal use of company vehicles based on the competitive rates of vehicle rental companies rather than the IRS mileage reimbursement rate.

Q. On page nine, line 20 of Staff witness Angela Niemeier’s testimony, she states “It is not Staff’s place to tell a private business how to pay their employees” in reference to Company witness Thompson’s wages. What is your response?

A. RWC is an investor-owned public utility. Investor-owned public utilities (“IOUs”) are regulated monopolies. Regulated monopolies exist in a market absent competition. The captive ratepayers of these regulated monopolies have no other choice in service providers.

1 The captive nature of these ratepayers ensure that their public utility providers have a source
2 of revenue despite how the providers treat their customers. Central to regulatory responsibility
3 is the goal of ensuring that IOUs do not use their positions as the only suppliers of critical
4 utility services, to captive ratepayers' detriment. Utility regulators exist specifically to combat
5 situations such as this one, where Staff and Raytown are seeking to raise consumer rates by
6 42.5% in a three year period. Especially when the Company has indicated its desire to return
7 for another rate case in the very near future.

8 Another aspect of regulatory responsibility is maintaining a healthy level of professional
9 skepticism, which requires regulators to critically assess all relevant and reliable information.
10 In this case, opinions differ on Ms. Thompson's overall wage and overtime pay. In my view,
11 the difference in opinion comes from the Staff's deviation of overtime treatment in this case.
12 In WR-2015-0246 and WR-2020-0264 Staff calculated overtime expense based on three and
13 two year averages, respectively, and normalized the expense. This method makes sense, and
14 provides a more reliable result, since overtime hours should vary from year to year. In this
15 case, Staff does not average and normalize the overtime hours. Rather, the "overtime payroll
16 for RWC was calculated based on RWC's overtime hours that was included on its books for
17 the test year and multiplied by the current pay overtime per hour rate."¹ Staff's overtime
18 calculation methods in this case deviates from its normal overtime treatment, essentially
19 annualizing, rather than normalizing, overtime.

20 **Q. Did additional Staff witnesses address the OPC's concerns around Raytown's**
21 **management practices?**

22 A. In reference to another RWC management audit, Staff witness Mr. David Spratt stated that the
23 "Commission has offered clear guidance that it is not interested in micromanaging
24 companies."²

¹ Staff's Disposition Agreement in WR-2023-0344, page 6, Payroll section.

² Rebuttal testimony of David A. Spratt, file No. WR-2023-0344, page 7 lines 20-21.

1 **Q. What is your response?**

2 A. There is a stark difference between micromanagement and ensuring customers receive quality
3 utility services at just and reasonable rates. For example, regulators could continue with
4 precedent and calculate overtime expense based on a multiple year average, realizing that
5 overtime hours fluctuate based on circumstances and efficiencies. On the other hand,
6 regulators could include just one test year of overtime expense in the cost of service, thereby
7 overstating payroll and discouraging efficiencies supposedly resulting from AMI installation.

8 **Q. Did you request a new management audit?**

9 A. No. Even though the original management audit was approximately 30 years ago, many of the
10 same underlying principles apply. RWC does not need an additional management audit, but
11 should take an active effort in following the relevant recommendations outlined in the original
12 audit, as these recommendations remain best practices even today.

13 **Q. Has Staff had any concerns about the management and operations of RWC in prior Staff
14 assisted cases?**

15 A. Mr. Spratt states that Staff has not found concerns with RWC in prior cases.³ However,
16 Disposition reports and Audit Unit Memorandums from prior cases include Staff
17 recommended remedies or improvements for a variety of issues. Staff's reports from the WR-
18 2009-0098, WR-2012-0405, WR-2015-0246 and WR-2020-0264 cases include several
19 recommendations to improve RWC management and operations processes. In fact, the Audit
20 Staff Memorandums from these prior cases are considerably more robust in both
21 recommendations and factual information than the Audit Unit Memorandum from this case.

22 **Q. What are some examples of Staff's recommendations to RWC in WR-2009-0098?**

23 A. Staff has numerous recommendations in light of concerns. Several examples of these
24 recommendations are listed below:

³ Mr. David A. Spratt, Rebuttal Testimony, File No. WR-2023-0344, page 7 lines 13-15.

- 1 • Company will agree to track and record the booking, write-off and recovery of bad
2 debts appropriately. (See #15.e, f, g and h below)
- 3 • Company will maintain clear and concise records of cell phones provided to
4 noncritical employees and family members through the Company's account with
5 itemized reimbursements by employees back to the Company. The Company shall
6 be consistent in the processing of cell phone charges for non-field employees and
7 family members of Raytown employees. The Company shall either eliminate cell
8 phones not justified by work duties, or ensure that all appropriate charges for these
9 cell phones are fully reimbursed by the Company's employees.
- 10 • The Company agrees to a six- (6) year amortization of the EIARA Water Facilities
11 Refunding and Improvement Revenue Bonds Series 2008 issuance costs and a ten-
12 (10) year amortization for the legal costs of getting the bond financing approved by
13 the Commission.
- 14 • Within six (6) months of the effective date of the Commission order approving this
15 Disposition Agreement the Company will implement procedures and training of its
16 employees to ensure that the recording of inventory costs to work orders will follow
17 FERC USOA and Commission requirements. Further, within one (1) month after
18 the implementation of these procedures, Company will provide documentation to
19 both Staff and OPC that verifies the procedures implemented and the training that
20 occurs.
- 21 • The Company shall develop a procedure to ensure that an employee performance
22 evaluation is performed annually for each employee. In addition, the Company shall
23 develop a procedure to document all employee evaluations.
- 24 • Company policies in the areas of leave and time management shall be equally
25 applied to, and equally enforced upon, all company employees. Specifically,
26 Company policies relating to the accrual of vacation time for part- time and full-time
27 employees shall be equally applied to, and equally enforced upon, all Company
28 employees. Employees shall work their scheduled hours unless they receive prior
29 approval from management. Furthermore, the Company understands that Staff
30 strongly discourages the practice of employees being allowed to work on weekends
31 to enable them to accumulate vacation time.
- 32 • In order to avoid additional charges, the Company shall make an additional effort to
33 ensure that payments to vendors who assess late fees and finance charges are made
34 in a timely manner.

35 I will discuss several more recommendations later on in testimony.

1 **Q. Would these recommendations be considered micro-managerial?**

2 A. No. It is within a regulator's purview to offer utilities guidance, when necessary, as a benefit
3 for both the company and its captive ratepayers.

4 **Q. Do other Staff witnesses reference WR-2009-0098 in rebuttal testimony of this case?**

5 A. Yes. Staff witness Courtney Horton referenced WR-2009-0098 in her discussion about Mr.
6 Clevenger's company vehicle.

7 **Q. In what manner did Ms. Horton reference WR-2009-0098?**

8 A. Ms. Horton questioned whether OPC disputed the use of an IRS mileage reimbursement rate
9 for the mileage Mr. Clevenger accrued on his company vehicle in this case.

10 **Q. To your knowledge, did OPC dispute the issue of mileage reimbursement in the
11 aforementioned case?**

12 A. Not that I am aware.

13 **Q. Were you employed by the OPC during WR-2009-0098?**

14 A. No.

15 **Q. Are you aware of any reason for which OPC did not dispute Mr. Clevenger's mileage
16 reimbursement rate based on IRS mileage reimbursement guidelines?**

17 A. No. But again, I was not employed by OPC during this time. There could be a myriad of
18 reasons the OPC chose not to dispute this issue. The WR-2009-0098 Audit Staff Memorandum
19 is considerably more detailed than the WR-2023-0344 memorandum and outlined several other
20 areas of concern.

21 **Q. In response to Ms. Horton, do you agree with using the IRS mileage reimbursement
22 standard for Mr. Clevenger's personal use of his Company vehicle going forward, even
23 though OPC did not dispute this issue in WR-2009-0098?**

24 A. No. The IRS mileage reimbursement rate does not sufficiently recover the cost of property
25 taxes, or other vehicles expenses, paid by the Company given the amount of time the vehicle
26 is in Mr. Clevenger's possession. During the first six months of 2023 alone, Mr. Clevenger's
27 company vehicle was utilized by other Company employees only 40 times, which is 22%. Mr.

1 Clevenger's company vehicle was one of the first replacement vehicles placed in service.
2 Company staff had more company vehicles to drive as additional vehicles were placed in
3 service.

4 **Q. Why do you continue to refer to this company vehicle as Mr. Clevenger's?**

5 A. The RWC Board Meeting Minutes from June 8, 2022 refer to the Ford F-2500 as Mr.
6 Clevenger's:

Truck/Equipment & Inspection Policy:

As of now, the Company has part of its new fleet in service as follows:

Truck #	Name	Size	Model	Cab Style	Price	Lighting
103	Meter 1		Rav 4		\$34,000.00	\$3,731.00
104	Meter 2		Rav 4		\$34,000.00	\$3,731.00
105	Todd	1500	Bighorn	Quad	\$53,375.00	\$5,000.00
206	Neal	2500	Tradesman	Reg	\$51,309.00	\$5,856.09

Yet to be delivered are as follows:

Name	Size	Model	Cab Style	Price	Lighting	Equipment
	2500	Tradesman	Reg	\$52,000.00	\$5,856.09	
	2500	Tradesman	Reg	\$52,000.00	\$5,856.09	
Service Chassis	3500 Diesel	Tradesman	Reg	\$67,059.00		\$17,000.00
Sm. Dump	5500 Diesel	Tradesman	Reg	\$80,000.00	\$5,000.00	

7
8 **Q. What are some examples of Staff's recommendations to RWC in WR-2015-0426?**

9 A. The recommendations that stand out concern the proper recording of vehicle acquisitions,
10 salvage amounts, and depreciation expense:

11 (a) The Company will create separate sub accounts to track all expenses related to
12 the following new services: facility line locates, vehicle management services using
13 GPS tracking and equipment servicing outsourcing; and

14 (b) The Company will record all depreciation expense in Account 403, Depreciation
15 Expense and not transfer any portion of the depreciation expense to capital accounts
16 or transportation and equipment expense accounts.

17 Staff then goes on to say:

1 During Staff’s audit, the General Manager of the Company, Mr. Neal Clevenger,
2 informed Staff of his intent to purchase one vehicle to replace a 2000 Ford F250 that
3 is un-drivable. Staff concluded that given the age, mileage, condition, and needed
4 repairs of this vehicle, it was appropriate for Raytown Water to purchase a truck to
5 replace this one. The Company purchased this vehicle within the cut-off date for
6 inclusion of new Plant-in-Service in rate base for this case. Therefore, Staff has
7 included in Plant-in-Service the prudent and necessary acquisition costs for this new
8 vehicle. Staff removed the replaced truck cost basis from plant-in-service and
9 depreciation reserve. Staff also deemed that the trade-in value of the vehicle that was
10 replaced should be treated as salvage and included that component in Staff’s
11 depreciation reserve balances⁴

12 **Q. Did you recommend a disallowance to remove the plant in service and depreciation**
13 **amounts for Mr. Clevenger’s company vehicle in this case?**

14 A. Yes.

15 **Q. What was Mr. Clevenger’s response?**

16 A. Mr. Clevenger responded that “no amount of money associated with a return on, or
17 depreciation expense related to, Raytown Water’s vehicles have ever been reflected in
18 rates.”⁵

19 **Q. In utility regulation, do utilities receive a return on plant-in-service?**

20 A. Yes. Under the revenue requirement model, utilities receive a return on capital investment
21 recorded in utility plant and a return of depreciation expense. Based on Staff’s Audit
22 Memorandum from WR-2015-0246, RWC vehicle acquisitions should be recorded in plant-
23 in-service accounts, and have been since at least the 2015 case. Additionally, trade-in values
24 of replaced vehicles should be included in Staff’s depreciation reserve balances as salvage.

25 **Q. Have you noticed anything else about the company vehicles in this case?**

26 A. Yes. RWC recently purchased eight replacement fleet vehicles with bond financing funds in
27 2022. However, the proceeds of only one replaced vehicle is included in the test year, in part
28 because at least four of the replaced vehicles were sold in 2023 for amounts ranging from \$172

⁴ WR-2015-0246, [AUDITING UNIT RECOMMENDATION MEMORANDUM](#), page 2 (or page 80/115).

⁵ Mr. Neil S. Clevenger, Rebuttal Testimony, File No. WR-2023-0344, page 12 lines 8-9.

1 to \$392, amounts which seem low for 2009 Ford F-150 trucks. However, at least three replaced
2 vehicles were either sold or “lost”⁶ during 2022, and these amounts do not correlate with the
3 “Plant Added Workpaper” supplied by Staff⁷. These discrepancies in financial records related
4 to vehicle purchases and retirements alone raises ongoing concerns about RWC’s record
5 keeping and return to manual accounting records. Additionally, Mr. Clevenger states that he
6 is invoiced monthly for the personal mileage he incurs on his company vehicle.⁸ However,
7 discovery in this case shows he hasn’t reimbursed RWC on a monthly basis, as he agreed
8 upon⁹. Additionally, Mr. Clevenger states that “[t]hese amounts are billed on a monthly basis,
9 on a per mile basis, although payments may sometimes be received for more than one
10 month.”¹⁰ Also, since Mr. Clevenger reimburses RWC for this vehicle from an unregulated
11 business account, RWC is essentially subsidizing a non-regulated business when his personal
12 usage of a company vehicle is not reimbursed on a monthly basis.

13 **Q. Did Mr. Clevenger address your concerns related to the reversion to manual accounting**
14 **records raised in Direct testimony?**

15 A. Yes. Mr. Clevenger responded that a RWC contractor, who was once a RWC employee,
16 believed in “old school” manually created records. Mr. Clevenger also states the Company
17 will use automation going forward.¹¹

18 **Q. Is Staff aware of RWC’s manual general ledger?**

19 A. Yes. The Auditing Unit Recommendation Memorandum states the following regarding the
20 Company’s manual general ledger:

⁶ Insurance company paid for loss of vehicle(s). In 2022 insurance paid for the loss of two vehicles for a total of \$46,250. An additional 2010 Ford F-250 was sold 12/23/2022 for \$3,000. The Company also sold two Ford F-250s in April 2023 for a total of \$528 and two Ford F-150s for \$749. These vehicle retirement amounts do not appear reflected in the Company’s or Staff’s Plant Ledger. See ADS-S-1.

⁷ Staff response to OPC data request 133; see Schedule ADS-S-2.

⁸ Mr. Neil S. Clevenger, Rebuttal Testimony, File No. WR-2023-0344, page 11 line 5.

⁹ Case No. WO-93-194 Audit Recommendation Implementation plan of personal usage of company equipment reimbursement signed by Mr. Clevenger.

¹⁰ Mr. Neil S. Clevenger, Rebuttal Testimony, File No. WR-2023-0344, page 9 lines 17-18.

¹¹ Mr. Neil S. Clevenger, Rebuttal Testimony, File No. WR-2023-0344, page 6 lines 16-22.

1 While Staff was on-site performing the audit, RWC provided copies of its manual
2 general ledger for plant and reserve (not part of a specific data request). This ledger
3 provided extensive detail of RWC’s plant records, including additions and
4 retirements. Staff received a few plant additions in emails from RWC on June 15,
5 2023, and has included these plant updates in its revenue requirement. Staff has also
6 included, in plant, the cost associated with the Advanced Metering Infrastructure
7 (“AMI”) meters that were installed through June 30, 2023.¹²

8 Interestingly, Staff writes that the ledger provided extensive detail of plant records even
9 though the retirement amounts of several Company vehicles are not recorded in the 392
10 transportation account. Furthermore, when issued data requests asking for specific
11 information relating to bond financing expenses and payments, Staff responded, “[b]ecause
12 of the lack of details in plant records, Staff’s Auditing Dept. were unable to locate expenses
13 associated with all of the costs and legal expenses associated with the Finance Case.”¹³

14 **Q. Does Mr. Clevenger’s response regarding a commitment to automated general ledger**
15 **updating alleviate your concerns?**

16 A. No. I only pointed out that several transactions appear missing in account 392 within the
17 Company’s plant ledger and it is reasonable to assume more accounts with missing transactions
18 or incorrect information exists. Furthermore, Staff offers conflicting opinions on the adequacy
19 of RWC’s plant record details, and discrepancies exist between Staff’s methods in this case vs.
20 WR-2020-0264. RWC initially requested \$735,103 in its application for a rate increase. Staff
21 has increased RWC’s initial request to \$1,174,782, even though a myriad of discrepancies and
22 inconsistencies, to include issues from other OPC witnesses, exist between this case and prior
23 RWC rate cases. Perhaps this is the professional skepticism surfacing, but the combination of
24 Staff’s proposed rate increase in light of several errors, omissions, and discrepancies just does
25 not make sense.

¹² WR-2023-0344, [AUDITING UNIT RECOMMENDATION MEMORANDUM](#), page 2 (or page 24/80).

¹³ Staff response to OPC data request 137; see schedule ADS-S-4.

1 **Q. What are some examples of Staff’s recommendations to RWC in WR-2020-0264?**

2 A. A notable example of a Staff recommendation in WR-2020-0264 is as follows:

3 “The Company shall seek information in its procurement of outside vendor services
4 to complete the improvements for which it seeks financing under (i) regarding wage
5 and benefits paid to contractor employees.”¹⁴

6 **Q. Does this recommendation regarding procurement seem micro-managerial?**

7 A. It does not. Many successful companies utilize a structured competitive bid process in order
8 to provide value to customers. Even though RWC agreed to develop and implement a
9 competitive bid process resulting from Staff recommendations some decades ago, it’s still
10 a highly relevant best business practice in the present day.

11 **Q. Do you believe that Raytown has the capability to take part in a competitive bidding
12 process?**

13 A. Yes, I do. Despite Mr. Spratt’s insinuation to the contrary,¹⁵ the Commission has expressly
14 stated its expectation that Raytown take part in competitive bidding processes prior to
15 purchasing any major equipment.

16 **Q. What caused RWC’s failure to issue formal requests for proposals (“RFP”) for AMI
17 meters or the purchase of replacement fleet vehicles?**

18 A. According to Mr. Clevenger, a formal RFP process “would not have added any benefit to
19 the purchasing process”¹⁶ since Ms. Thompson had been studying AMI for years and spent
20 “a fair amount of time” negotiating vehicle price and availability with dealerships.

21 **Q. Do you agree?**

22 A. No. Issuing RFPs and following formal procurement processes provide value for both
23 companies and their customers – even after studying a product for years. Technology is
24 constantly evolving and upgrading. AMI solutions available today more than likely differ

¹⁴ Staff Audit memorandum WR-2020-0264.

¹⁵ Mr. David A. Spratt, Rebuttal Testimony, File No. WR-2023-0344, page 6 lines 7-9

¹⁶ Mr. Neil S. Clevenger, Rebuttal Testimony, File No. WR-2023-0344, page 12 lines 8-9

1 from the AMI solutions available years ago. However, without formal documentation, the
2 process is lacking transparency and an objective person cannot be certain that the Company
3 procured the equipment at the best value.

4 This lack of transparency likewise occurred with the fleet purchase. The list of vehicles
5 provided with the financing application were 2021 vehicles. RWC purchased replacement
6 vehicles from 2022 and exceed the original vehicle prices by tens of thousands of dollars.¹⁷
7 Even though the company purchased only eight of the nine requested vehicles, the budget
8 for each vehicle greatly exceeded the estimated cost. Yet, since the Company did not follow
9 a formal, documented process, RWC's process lacked transparency. This lack of
10 transparency removes the ability for any objective person to be certain the Company
11 received best value for its replacement fleet.

12 **Q. What do you recommend?**

13 A. Despite taking place thirty years ago, Staff's 1994 Management Audit of RWC¹⁸ contained
14 several recommendations that are still considered best practices in the present day. Since the
15 company agreed to implement Staff's recommendations at the time, little cost is necessary
16 since the frameworks should already exist. I recommend the Commission order RWC to
17 follow the implementation plan from Staff's Management Audit.

18 Further, I reiterate my recommendation disallowing the return on and of Mr. Clevenger's
19 company vehicle. While Mr. Clevenger states that other RWC employees have access to
20 drive the vehicle, it is infrequent. Likewise, discovery in this case shows that his company
21 vehicle has remained parked in the parking lot of Mr. Clevenger's unregulated business for
22 long stretches of time. Discovery in this case also shows that, while Mr. Clevenger's
23 mileage may be invoiced monthly, payment from the family's unregulated business
24 consisted of several months, combined. Therefore, this discovery shows that Mr. Clevenger
25 does not follow the recommendation that he reimburse RWC on a monthly basis, and

¹⁷ Staff response to OPC data request 0133; comparison of actual vs planned replacement fleet vehicle cost.

¹⁸ WO-93-194

1 indicates that RWC is subsidizing the family's unregulated business. For this reason, I
2 recommend Mr. Clevenger reimburse RWC for the personal usage of his company truck
3 based on competitive daily rental company rates, rather than the IRS reimbursement rate.

4 **Q. Does this conclude your testimony?**

5 A. Yes.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Application of a Rate)
Increase of Raytown Water Company) Case No. WR-2023-0344

AFFIDAVIT OF ANGELA SCHABEN

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Angela Schaben, of lawful age and being first duly sworn, deposes and states:

1. My name is Angela Schaben. I am a Utility Regulatory Auditor for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

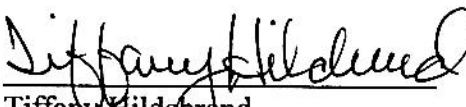


Angela Schaben
Utility Regulatory Auditor

Subscribed and sworn to me this 8th day of November 2023.

TIFFANY HILDEBRAND
NOTARY PUBLIC - NOTARY SEAL
STATE OF MISSOURI
MY COMMISSION EXPIRES AUGUST 8, 2027
COLE COUNTY
COMMISSION #15637121

My Commission expires August 8, 2027.



Tiffany Hildebrand
Notary Public